Summary Statement by

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Partnership to Cut Hunger and Poverty in Africa

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Hearing on the Africa Growth and Opportunity Act (AGOA): A Five Year Assessment

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Introduction

Mr. Chairman, Ranking Member and members of the Committee:

I thank you for this opportunity to testify before the Committee and wish to record my appreciation for every support the U.S. government and the Congress has given, and continue to give, towards promoting economic growth and sustainable development in Africa. My remarks today will focus on what might not be covered by the other panelists and give attention to four aspects of implementation of AGOA:

- The differential impact of AGOA by sector and countries;
- The critical importance of diversifying exports from Africa;
- The dire need for rationalized trade capacity programs to strengthen agricultural exports and build regional markets within Africa in order to take advantage of AGOA and other initiatives; and
- How we might better use the annual AGOA summits to address real issues.

Mr. Chairman, as a late addition to the witness list, I respectfully submit a summary statement and request your consent to extend and revise my comments for submission as a complete written testimony for the record.

The Importance and Impact of AGOA

Mr. Chairman, behind the trade statistics presented here today lie real-life changes and many success stories that are indicative of how AGOA is helping Africans. I am sure I speak for many of these voices when I say AGOA is profoundly important to Africa and is viewed as a strong symbol of U.S. commitment to Africa's economic development. The enactment of AGOA five years ago marked a significant turning point in U.S.-Africa development policy, with trade augmenting development assistance in an effort attributed to the famous ancient Chinese Proverb that states "Give a man a fish, and you feed him for a day; teach him how to catch fish, and you feed him for a life time." In other words, AGOA is using trade to complement aid and build sustainable African economies

AGOA has had positive impacts in the short time it has been around, and has potential to do more. The legislation has raised the profile of U.S.-Africa trade and, stimulated economic growth by creating hundreds of thousands of new jobs and attracting investments worth hundreds of millions of dollars to Africa. Although Africa supplies only 1 percent of the U.S.

market, the United States represents the single largest country market for Africa. Two-way trade between the U.S. and Africa totaled $44 billion in 2004, up from $24 billion in 2002, with African exports to the U.S. accounting for $36 billion, double the level in 2002. While these figures may not be significant when compared to total U.S. global trade, they represent a substantial income gain for Africa. These gains are not limited only to Africa. U.S. exports to Africa have significantly increased since AGOA started, with Africans buying more U.S. products such as computers and farm machinery.

I would like to draw attention, however, to the sectoral distribution of AGOA's benefits. It is clear that the expansion of US-Africa trade over the last few years has had a limited impact on reducing hunger and poverty in Africa – which I believe was the fundamental objective of the architects of AGOA. So far, trade benefits are concentrated mostly in extractive industries in a few countries, with little impact on hunger and poverty. In 2004, oil and gas accounted for 87% of total U.S. AGOA imports from Africa, worth about $16 billion while five African countries - Nigeria, Gabon, Angola, South Africa and Lesotho – accounted for about 90% of Africa's exports to the U.S. This sectoral and country concentration of benefits has changed little since 2001, which may suggest some difficulty for new countries to take advantage of AGOA, and for AGOA trade to expand beyond the traditional oil and gas sectors.

Diversifying AGOA Exports

Mr. Chairman, the greatest stories about AGOA have come, not from the energy sector, but the textile and apparel sector. The expansion of African textile industries in response to AGOA helped poor families in a number of African countries. Lesotho, for instance is a small, land-locked country that became sub-Saharan Africa's second largest exporter of manufactured goods to the U.S. in 2002, benefiting immensely from new jobs in the apparel sector. But the January 2005 expiration of the WTO Multi-Fibre Agreement lifted the same quotas which helped facilitate Africa's entry into the world textile market. Africa's textiles and apparel industries are now under threat, and factories are closing because African manufacturers cannot compete well with their low-cost Asian counterparts. It is critical to sustain earnings in this sector in the short- and medium-term by strengthening the parts of the industry that can compete with Asia, and encouraging vertical integration within the sector. But, in the long-run, Africa should diversify its exports beyond textiles and apparel, and especially in agriculture – where countries have a stronger comparative advantage and where accelerating economic growth can have a dramatic impact on rural poverty.

Given the strong U.S. policy commitment to reducing poverty in Africa through economic growth, and the importance of strengthening trade and markets as a key tool for accomplishing this, then AGOA – as part of the U.S.-Africa trade strategy – should reflect this commitment. To date, a large proportion of Africa's population - equivalent to the U.S. population - is still severely undernourished and frequently goes to bed hungry without knowing where the next meal will come from. About one-half of Africa's population lives on less than $1 a day. It is this set of people that really needs interventions like AGOA to help lift them out of the poverty trap.

Three-quarters of Africans live in rural areas and depend on agriculture for their livelihood. Therefore, the best means of raising their incomes is through promoting agricultural growth and investing in rural-based economic enterprises. Agricultural growth is a powerful catalyst for broad-based economic development. The International Food Policy Research Institute (IFPRI) estimates that a $1 increase in agricultural productivity would raise income of six million Africans above $1 a day, and that a $1 investment in agricultural production generates an additional $2.30 for the economy.

Statistics from the U.S. International Trade Commission reveal a potential to expand U.S.-Africa agricultural trade. The share of agricultural imports under AGOA has been about 1% over the past few years. However, several agricultural exporters to the U.S., such as South Africa and Malawi, have doubled their share of agricultural exports-- including fruits, vegetables and beverages --between 2001 and 2004. Kenya, Swaziland and Tanzania also exported small but growing quantities. What is most notable, as details in my final written testimony will demonstrate, is that countries are increasing the diversity and the value of their agricultural exports to the United States. This shows there is a significant untapped potential for improving this sector, with benefits channeled to rural areas and poor, small farmers in Africa.

I now turn my attention to how we can achieve this potential and derive positive benefits for Africa and the United States, and I focus on trade capacity building, expanding market access and better coordination of U.S. efforts.

Importance of Trade Capacity Building for AGOA's Agricultural Exports

Market access provided by AGOA and, hopefully, by the forthcoming Doha negotiations, in combination with coordinated U.S. and African public and private sector investments, can increase the quality and competitiveness of African products and help build stronger capacity for Africa's producers and agribusiness to participate in local, regional and international markets. Public and private investments can ease specific constraints that affect the competitiveness of African products, including poor infrastructure, communication networks, and weak legal and regulatory frameworks. There is a tremendous opportunity for joint U.S.-Africa business ventures that process agricultural commodities and add value to them, creating local jobs and income growth in rural areas, and products for export.

However, it is clear that many producers and agribusinesses in Africa have been unable to take advantage of AGOA. Constraints cited for this include: lack of capacity for producers and agro-processors to supply sufficient amounts of quality products for the U.S. market; lack of access to agricultural inputs, financial services, market information and transport facilities; inability to meet U.S. sanitary and phytosanitary standards; and lack of business skills and U.S. contacts, especially among small businesses and producers. It is also true that many small businesses in the U.S. and Africa do not know or understand what AGOA is all about, pointing to a need for education and awareness campaign about the legislation.

Current AGOA legislation identifies the importance of easing these constraints in order to unleash Africa's trade potential, and the President urges increased support for trade capacity building (TCB) in these key areas. The U.S. spent nearly $200 million in 2003 on a range of activities including trade facilitation, participation in the WTO negotiation process, assistance with trade and financial sector reforms, and technical and financial assistance for developing transport, port and communication networks.

However, these efforts are scattered among a dozen or so U.S. government agencies and not well coordinated. The three African Trade Hubs in West, East and Southern Africa face significant challenges in coordinating the different programs and mandates of the different U.S. agency programs. The Hubs could be very important but they have a rough job and uncertain mandate with regard to coordinate the different programs of different agencies. More difficult is that agencies operating in this arena have different mandates. For instance, USAID focuses on development; USDA focuses on expanding U.S. markets; and USTR focuses on getting U.S. advantage from trade negotiations. Some of these agenda can be conflicting. The Regional Trade Hubs find themselves at the front line of trade capacity building without a coherent set of policies or programs in place and no one "in charge" of seeing that the different agencies/programs work together better. Hence, the TCB efforts are not as effective as they should or can be. With limited funding available – the Senate Foreign Relations Committee recommending $214 million for fiscal year 2006 – rationalized and better coordinated TCB programs that address priorities set by African national and regional organizations are required.

Strengthening Local and Regional Markets

Strong local and regional markets stimulate agricultural trade and improve farm incomes dramatically, as experience in countries like Malawi, Kenya and Uganda shows. With a tremendous potential for expanding Africa's regional markets, African leaders are stepping up and increasingly focused on dismantling trade barriers between neighboring countries and forming viable economic blocs, like ECOWAS in West Africa, COMESA in East and Southern Africa and SADC in Southern Africa.

Local producers and processors who gain access into these regional markets are better positioned to scale up their operations and enter the global market place, so that these regional markets serve as launching pads for the international market. There is need to connect programs that work on export trade and programs that work on building national and regional trade. Currently, these programs often operate in isolation but are strongly complementary.

Moving Forward – AGOA Forums and Federal Funding

I respectfully wish to bring to your attention a seriously missed opportunity. It was a terrific idea to include as part of the AGOA legislation an annual US-Africa consultative process – the AGOA Forum – to discuss progress made and how to face challenges, and to allow trading partners to chart a common road map based on identifiable benchmarks. However, I attended the most recent AGOA Forum in Dakar, Senegal – and sadly feel there is a lot more that could have been achieved.

To get the most from these meetings, I suggest that all the three sectoral meetings– the ministerial, the private sector and civil sector – continue to be hosted in one location, which is an excellent opportunity for networking and substantive discussions. In addition, I suggest that future AGOA forum organizers:

- Streamline the meeting agenda to maximize interactions among the sectors on topics of common interest and better manage the overall meeting (during the Dakar meeting, groups with similar discussion themes hardly held joint sessions, which could have enriched the discussions and extracted practical solutions to specific challenges;
- Better manage on-site registration to enhance conference participation and schedule;
- Significantly expand analysis and discussion of achievements and constraints of AGOA and develop ideas needed to make AGOA implementation more effective with benchmarks for each year, and evaluation of the progress made in the next consultative forum;
- Manage bilateral side-meetings so that they don't divert attention from the main sessions; and

- Bolster attendance by the private sector, especially the U.S. and Africa agribusiness sector, as well as individual producers and processors – this year their participation was dismal. Unless the people directly involved with implementing AGOA are present in these discussions, a lot of what is recommended at the end is either impractical or never taken up.

Mr. Chairman, as we move forward it is clear that AGOA holds great potential for further expanding U.S.-Africa trade. But in order to exploit this potential, and expand the opportunities to more African countries and to poor communities in Africa's rural areas, it is important to mobilize more U.S. and Africa public and private funding and provide capacity building where this is needed most –especially in agriculture and rural sectors.

A recent report by the *Partnership to Cut Hunger and Poverty in Africa* and *Resources for the Future* reveal that U.S. funding for agricultural development in Africa was stagnant between 2000-2004 in stark contrast with funding for health and education. Funding these social sectors must not lead to a neglect of funding Africa's agricultural development. This will likely keep African countries dependent on external assistance for their health and education systems. Agriculture is what drives most African economies and growing these economies will provide the much needed broad-based economic growth from which to finance future social services in a more sustainable manner.

In summary, Mr. Chairman, let me underscore the need for increased funding and streamlining of current and future U.S. TCB programs. With more funding and better coordination, implementing agencies and the Regional Trade Hubs will offer better assistance to U.S. and Africa entrepreneurs, and make AGOA more productive and effective. But for AGOA to work for the poor as originally intended, it must reach back and complement efforts to strengthen local capacity to trade, and help foster nascent local, national and regional markets. AGOA has great potential and should not be allowed to operate in isolation. Rather, it should be part and parcel of a comprehensive effort to promote economic growth in Africa. Strong African economies and poverty elimination will provide enormous benefits to Africans and also to the U.S., as Africa is the greatest untapped market for the future. Thank you.